Market Commentary June 10, 2019

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EXECUTIVE SUMMARY

Week in Review – One of the 124 Best Five Day Periods in History
Sentiment – Maximum Pessimism Prior to Rebound
Friendly Fed – Markets Expecting Interest Rates to Be Cut
Econ Data – May Payrolls Disappoint
GDP Growth Projection – No Recession Forecast
Tariff Talk – Trump Will NOT Impose Tariffs on Mexico
Interest Rates – Yields Dive and Stocks Compare Even More Favorably
Patience – Time Definitely Favors Equity Investors
Stock Updates – GOOG, AAPL, MSFT, CVS, SJM & TNP

Market Review

In yet another reminder of why we always say that the only problem with market timing is getting the timing right, the equity markets enjoyed their finest week of the year, and one of the 124 best in history,…

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THE PRUDENT SPECULATOR
Outsized DJIA Weekly Moves

The 5.31.19 – 6.7.19 rebound was very impressive, as since 1927 there have been only 124 weeks in which the Dow gained at least 4.71%.

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		2	1	0	0	4	2	1	5	1	16
Years Ending in 1		9	0	0	0	1	0	2	1	3	16
Years Ending in 2		16	1	0	1	0	4	0	2	0	24
Years Ending in 3		14	0	0	1	0	0	0	1	0	16
Years Ending in 4		5	0	0	0	3	1	0	0	0	9
Years Ending in 5		0	0	0	0	3	0	0	0	0	3
Years Ending in 6		0	1	0	1	1	1	0	0	1	5
Years Ending in 7		1	0	0	0	0	2	2	0	0	5
Years Ending in 8	3	8	0	0	0	0	2	1	3	1	18
Years Ending in 9	4	1	0	0	0	0	0	2	4	1	12
Totals	7	56	3	0	3	12	12	8	16	7	124

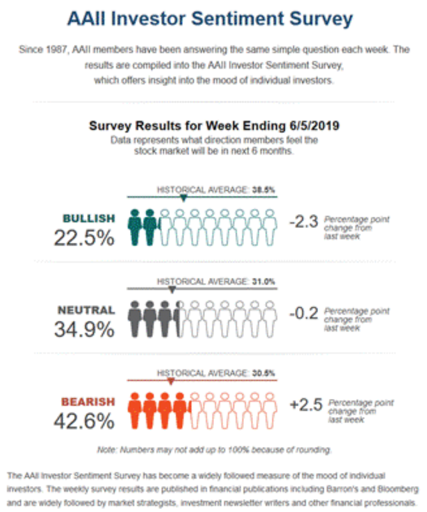
From 12.31.27 though 06.07.19. Weeks of index price return gains of more than 4.71%. SOURCE: Al Frank using data from Bloomberg

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		11	2	1	0	1	1	0	2	1	19
Years Ending in 1		17	1	0	0	0	0	0	2	3	23
Years Ending in 2		16	0	0	2	0	0	0	2	0	20
Years Ending in 3		5	0	0	0	1	0	0	1	0	7
Years Ending in 4		2	0	0	0	7	0	0	0	0	9
Years Ending in 5		1	0	0	0	1	0	0	0	1	3
Years Ending in 6		1	1	1	0	0	1	0	0	1	5
Years Ending in 7		7	0	0	0	0	4	0	0	0	11
Years Ending in 8	1	7	1	0	0	1	1	3	5	3	22
Years Ending in 9	9	4	0	0	0	1	1	2	4	0	21
Totals	10	71	5	2	2	12	8	5	16	9	140

From 12.31.27 though 06.07.19. Weeks of index price return drops of more than 4.71%. SOURCE: Al Frank using data from Bloomberg

…just as the exodus from U.S. stock and exchange traded funds resumed and investor pessimism rose to the highest level of the year,…

THE PRUDENT SPECULATOR
Big Boom in Investor Pessimism



June 6, 2019 - Expectations among individual investors for an increase in stock prices continues to stay at an unusually low level. At the same time, pessimism in the latest AAII Sentiment Survey remains at an unusually high level.

Bullish sentiment, expectations that stock prices will rise over the next six months, declined by 2.3 percentage points to 22.5%. Optimism was last lower on December 12, 2018 (20.9%). This is the fourth consecutive week bullish sentiment has been below 30%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 2.5 percentage points to 42.6%. Pessimism was last higher on January 2, 2019 (42.8%). This is the fourth consecutive week that bearish sentiment is above its historical average of 30.5%.

As often occurs AFTER a big downturn, the number of Bulls in the AAII Sentiment Survey sinks, with the latest tally the lowest of 2019. Not surprisingly, after a one week bout of buying, investors in U.S. stock funds and ETFs went back into redemption mode, with bonds again garnering the love.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	5/29/2019	5/22/2019	5/15/2019	5/8/2019	5/1/2019
Total Equity	-4,714	3,827	-11,397	-8,305	-5,953
Domestic	-4,412	3,722	-9,569	-10,162	-5,176
World	-302	105	-1,828	1,857	-776
Hybrid	-1,191	-736	-985	-837	-1,564
Total Bond	3,040	4,565	1,680	7,592	10,458
Taxable	1,416	2,486	-138	5,261	8,317
Municipal	1,624	2,078	1,819	2,331	2,141
Commodity	157	178	-708	-745	-192
Total	-2,708	7,834	-11,409	-2,294	2,748

Source: Investment Company Institute

…with the American Association of Individual Investors (AAII) explaining: "Many individual investors have been monitoring trade negotiations, particularly between the U.S. and China. The possibility of tariffs placed on imports from Mexico may also be having an effect. We've also heard from AAII members who are concerned about a drop in stock prices occurring, and the recent weakness may be playing into their worries. (Many of this week's responses were recorded on Monday.) Also having an influence are monetary policy, Washington politics (including President Trump), geopolitics, valuations, corporate earnings and the pace of economic growth."

Of course, even the AAII understands the contrarian nature of its survey, stating that, historically, unusually low levels of bullish sentiment and unusually high levels of bearish sentiment have been followed by **higher-than-median** six-month returns for the S&P 500 index.

To be fair, far more credit for the rebound is owed to commentary from various members of the Federal Reserve who gave the impression that interest rates will soon be cut, due to "recent developments involving trade negotiations and other matters." As Fed Chair Jerome H. Powell said, "We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2% objective."

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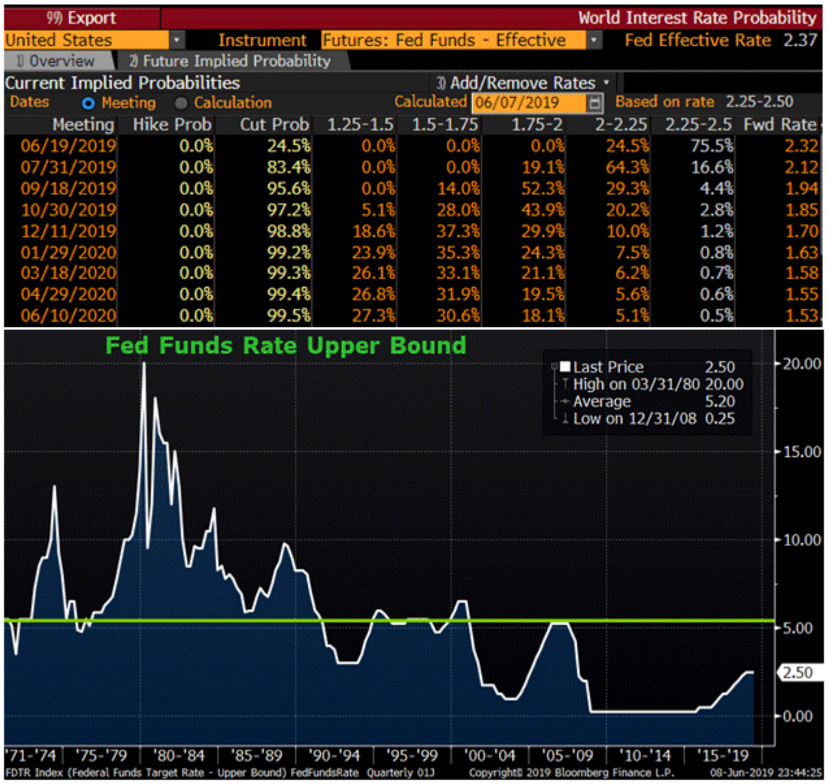
Already Low Interest Rates May Go Lower



Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	Fwd Rate
06/19/2019	0.0%	24.5%	0.0%	0.0%	0.0%	24.5%	75.5%	2.32
07/31/2019	0.0%	83.4%	0.0%	0.0%	19.1%	64.3%	16.6%	2.12
09/18/2019	0.0%	95.6%	0.0%	14.0%	52.3%	29.3%	4.4%	1.94
10/30/2019	0.0%	97.2%	5.1%	28.0%	43.9%	20.2%	2.8%	1.85
12/11/2019	0.0%	98.8%	18.6%	37.3%	29.9%	10.0%	1.2%	1.70
01/29/2020	0.0%	99.2%	23.9%	35.3%	24.3%	7.5%	0.8%	1.63
03/18/2020	0.0%	99.3%	26.1%	33.1%	21.1%	6.2%	0.7%	1.58
04/29/2020	0.0%	99.4%	26.8%	31.9%	19.5%	5.6%	0.6%	1.55
06/10/2020	0.0%	99.5%	27.3%	30.6%	18.1%	5.1%	0.5%	1.53

It is fascinating that investors, at least as evidenced by the Fed Funds Futures market, now believe that the Federal Reserve has a 98.8% chance of lowering interest rates by year end after fretting back in December that Jerome Powell & Co. were on a pre-set course to hike rates throughout 2019.

Interestingly, less than stellar economic data last week was greeted with optimism by the equity markets, as the widely watched jobs report on Friday came in weaker than expected, at least in term of the number of payrolls created,…

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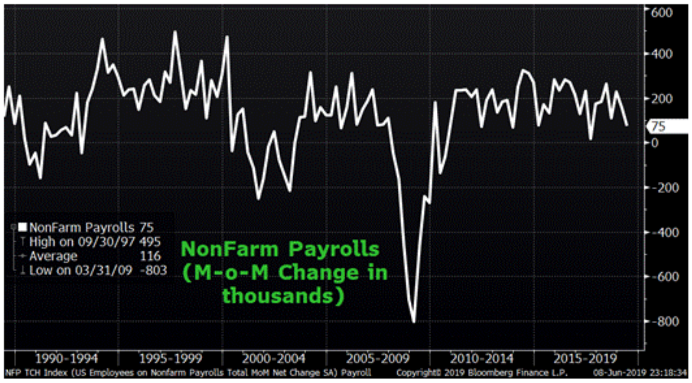
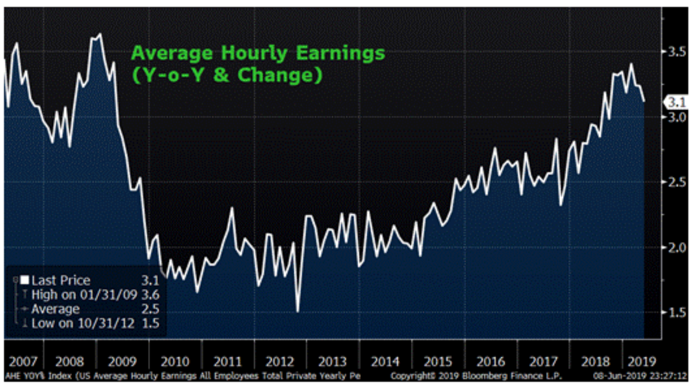
Not So Great Employment Report





Uncle Sam said that the number of new jobs created during May slumped to 75,000, well below the consensus forecast of 180,000 and significantly weaker than the revised 224,000 tally for April. Meanwhile, the gain in average hourly earnings came in at 3.1% on a year-over-year basis, down from a recent high of 3.4% in February and continuing to suggest that inflation in the labor market is contained.

…even as it is hard to complain about the multi-decade lows in the jobless rate and initial filings for unemployment benefits.

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THE PRUDENT SPECULATOR
Historic Lows in Jobless Numbers

The headline payrolls number in May came in weaker than expected, but the unemployment rate remained at 3.6% last month, the lowest level in 50 years! And, the latest figures (for the week ended 6.1.19) on first-time claims for unemployment benefits saw 218,000 new filings, still near lows last seen back in December 1969 when the workforce was significantly smaller than it is today.

The picture was also mixed with the weaker-than-expected ISM Manufacturing index reading for May,…

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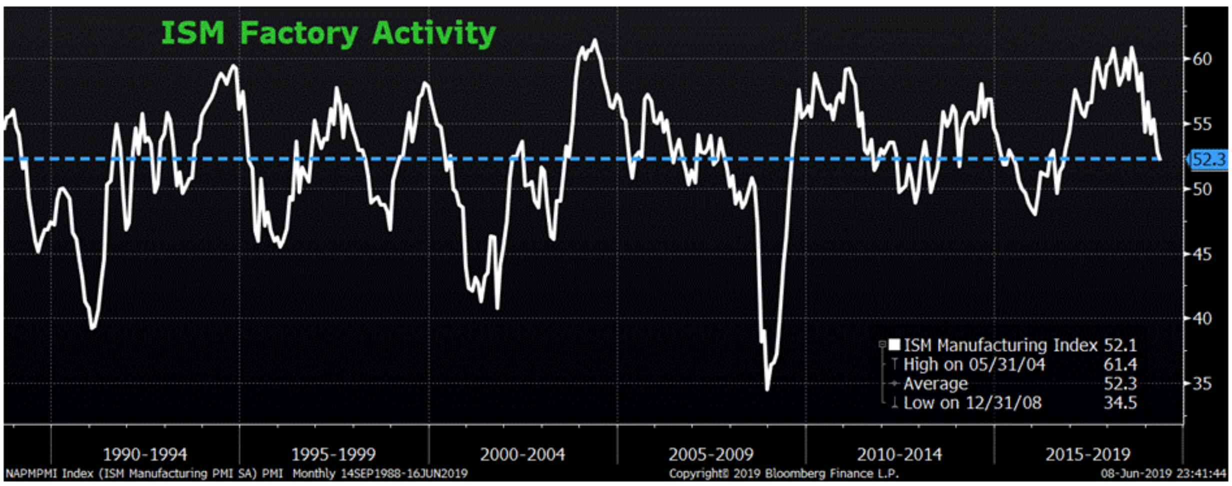
THE PRUDENT SPECULATOR
ISM Manufacturing Retreats

The latest read on the health of the factory sector came in at a worse-than-expected and right at the historical average 52.1 for May, with the Institute for Supply Management stating, “The past relationship between the PMI® and the overall economy…corresponds to a 2.7% increase in real gross domestic product (GDP) on an annualized basis.”



…and the better-than-expected ISM Non-Manufacturing index tally,..

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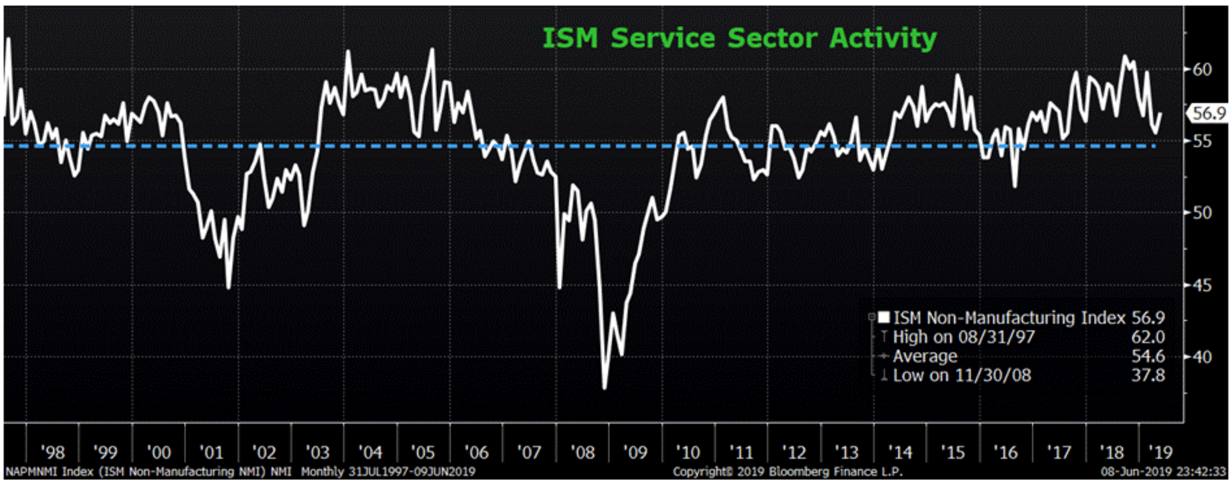
THE PRUDENT SPECULATOR
ISM Non-Manufacturing Rebounds

The latest read on the health of the service sector (NMI®) came in at a weaker-than-expected, though still above average, 56.9 for May, with the Institute for Supply Management stating, "The past relationship between the NMI® and the overall economy…corresponds to a 2.9% increase in real gross domestic product (GDP) on an annualized basis."



…though both measures still suggest that a recession is unlikely, even as other data points argue that GDP growth will hardly be robust.

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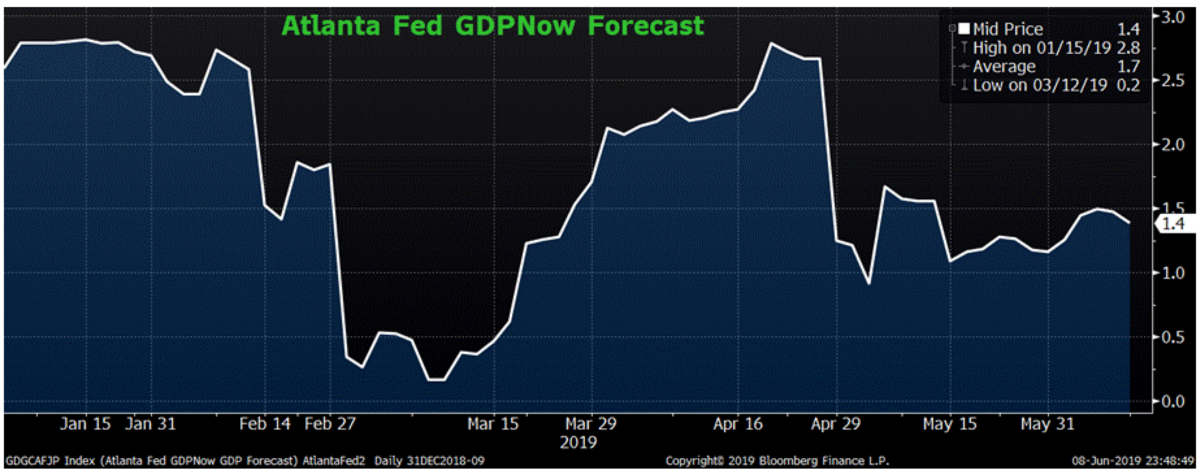
THE PRUDENT SPECULATOR
Recession Not Presently the Prediction

As the old saw goes, economists have predicted nine of the last five recessions, and the soothsaying so far in 2019 vividly illustrates why we like the Niels Bohr quotation, “Prediction is very difficult, especially if it is about the future.” Indeed, three months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then sink anew to a 1.4% guess today.



To be sure, there was seemingly good news out on the trade front this weekend, when President Trump tweeted, “I am pleased to inform you that The United States of America has reached a signed agreement with Mexico. The Tariffs scheduled to be implemented by the U.S. on Monday, against Mexico, are hereby indefinitely suspended. Mexico, in turn, has agreed to take strong measures to stem the tide of Migration through Mexico, and to our Southern Border. This is being done to greatly reduce, or eliminate, Illegal Immigration coming from Mexico and into the United States.”

Of course, the U.S. and China are a long way away from resolving their trade skirmish, so we suspect that the equity markets will remain volatile, but it is hard for long-term-oriented folks not to be enthusiastic about the prospects for stocks, given the sizable drop in bond yields in recent weeks,…

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THE PRUDENT SPECULATOR
Fed Model: Favorable Earnings Yield

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively rich earnings yield of 5.33%.

…especially when one thinks about how favorably the current 1.95% yield on the S&P 500 compares to the yield on the 10-Year U.S. Treasury.

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 10-year U.S. Treasury today, with its 2.08% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.08%	Count <=2.08%	Percent >2.08%
1 Month	683	419	62.0%
3 Months	726	374	66.0%
6 Months	759	338	69.2%
1 Year	779	312	71.4%
2 Year	872	207	80.8%
3 Year	915	152	85.8%
5 Year	907	136	87.0%
7 Year	963	56	94.5%
10 Year	945	38	96.1%
15 Year	915	8	99.1%
20 Year	863	0	100.0%

DIVIDEND PAYERS

	Count >2.08%	Count <=2.08%	Percent >2.08%
1 Month	679	423	61.6%
3 Months	725	375	65.9%
6 Months	764	333	69.6%
1 Year	793	298	72.7%
2 Year	886	193	82.1%
3 Year	877	190	82.2%
5 Year	915	128	87.7%
7 Year	945	74	92.7%
10 Year	929	54	94.5%
15 Year	900	23	97.5%
20 Year	863	0	100.0%

From 07.31.27 through 04.30.19. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

Stock Updates

Keeping in mind that all stocks are rated as "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, Chris Quigley and Jason Clark offer updates on 6 of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

Months of review of Facebook on Capitol Hill seems to be spilling over now, with plenty of headlines last week worrying of federal antitrust enforcement targeting **Alphabet** (GOOG – $1,066.04) and **Apple** (AAPL – $190.15), among other big tech companies. While European lawmakers have busted **Microsoft** (MSFT – $131.40), Google and others in the past for antitrust violations, intrusions of privacy, search engine favoritism and other anti-competitive arrangements, Washington has been slow to act. The big technology companies here have long steered customers to their wares or set defaults that perhaps disadvantage the competition, but the rate of evolution has been fast enough that laws and lawmakers have had little success keeping up, and in some cases have opted to skip enforcement entirely.

That seems to be changing, though, as the Justice Department and the Federal Trade Commission are reportedly looking closely at Facebook and Google. That would make sense, though, as both companies take money to point users in a certain direction (Alphabet earns 85% of revenue from advertising) and neither have been particularly protective of customers or their data. Sure, Apple has been more open about protecting customer data first and not "monetizing" them, but the company has strict App Store terms and conditions that change the makeup of the available software, for example.

It's unclear to what extent the federal government is willing to fight the big tech firms, or if it's a little bit of window dressing gearing up for the 2020 elections. Last year, we were expecting a knock-down, drag-out fight over net neutrality from the FTC and they let telecoms have virtually everything they asked for. It's obviously hard to gauge. Thus, it's challenging to handicap on a high level and even harder to make predictions about the effects of possible enforcement actions. Based on the European precedent, the course the government takes will likely be long and arduous. As an example, Europe's original abuse of power case against Microsoft was brought by Sun Microsystems in 1993 and was not settled until 2003 with a payment amount set in 2004 and finally resolved in 2012. At that point, the agreement to offer Windows with and without Windows Media Player had little effect on MSFT's Windows business, while things have gone especially well for the tech giant since Satya Nadella took over in 2014.

Taken together, we think it's a big, collective shrug. The headlines will swirl long into the future because lots of people own or use their products or own the stocks. Yet any busting up or divestment deals will take years to figure out correctly. And all of the tech companies mentioned above (plus most others) are masters of evolution, so we wouldn't be surprised to see few adverse effects from the government's action(s). Our current Target Prices for Microsoft, Apple and Google are $138, $228 and $1,512, respectively.

Apple's effort to shore up its non-iPhone product suite was obvious at the company's Worldwide Developer's Conference last week. The company announced software updates to the iPad and Apple Watch, while killing off iTunes after an 18-year run. On the hardware front, Apple reverted to the "cheese grater" form factor for the professional-oriented Mac which starts at $6,000. Apple rounded out the new Mac with a $4,999 monitor that comes ready to wall mount, and for $999 extra, a stand.

WWDC generally doesn't move the share price much, though this time around the shares did outpace the S&P 500 IT sector. The Mac is not built or priced for mainstream use or affordability. Most professional setups, we imagine, would total $15,000 or more plus software. iPad will switch from sharing iOS with iPhone to a separate iPadOS. The change removes some of the constraints that prevented iPad from becoming a true laptop replacement.

We suppose that the announcements are a bit boring, as software changes are not nearly as exciting as Apple's "next big things" that have historically come in September of each year. We think the China spat remains a big risk factor, though the country's love of Apple products and the blowback the Trump administration would get for forcing prices up or pinching supply of our beloved iOS devices makes it seem likely to us that AAPL will be able to sidestep any major tariffs.

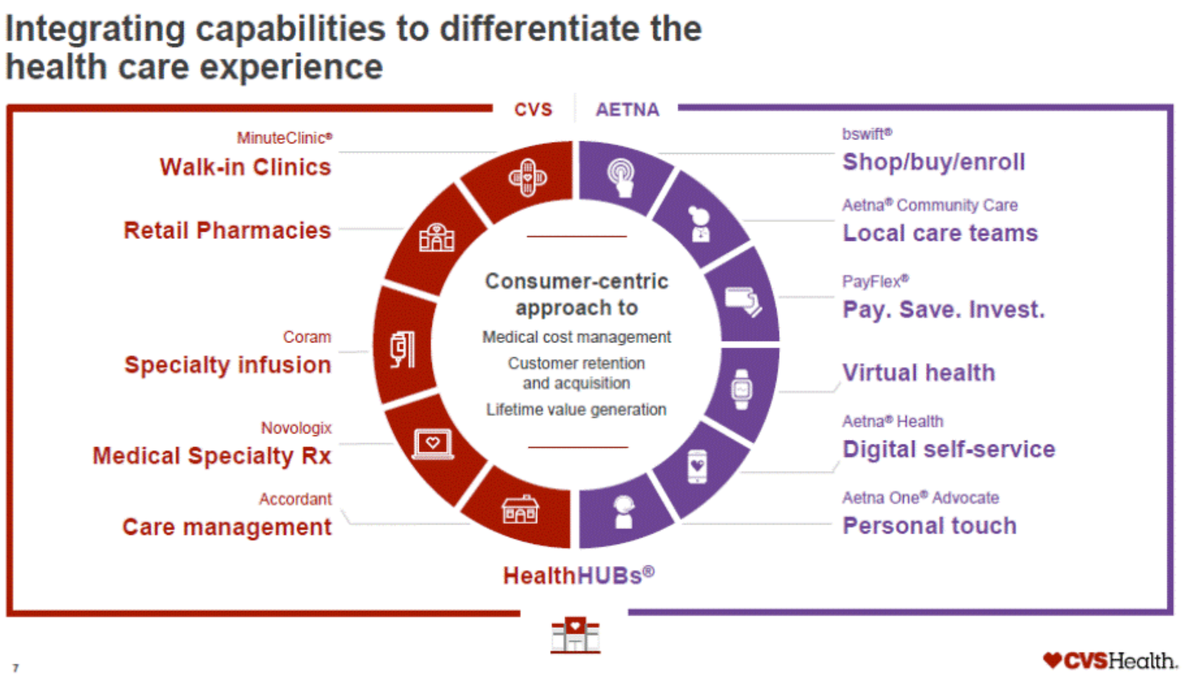
Apple's balance sheet still sports its mountain of cash and the demand for its products we believe is robust over the long term. Apple's App Store also has a substantial amount of recurring and ancillary revenue, which we would argue is hugely valuable even if the company never sold another iPhone. We think the consolidation of iTunes and Apple Music will largely go unnoticed and be uneventful. We believe the valuation remains attractive, with metrics like a forward price to earnings ratio of 15.9, a free cash flow yield of 6.6% and a dividend yield of 1.6%.

CVS Health (CVS – $53.92) hosted its investor day last week to outline plans to accelerate enterprise growth, simplify consumer health and position the company for long-term growth and increased shareholder value. CVS reaffirmed 2019 full-year guidance for consolidated revenue of $251.2 billion to $254.4 billion, and adjusted EPS of $6.75 to $6.90. Management says it expects to deliver $7.00+ adjusted EPS in 2020, mid-single-digit percent adjusted EPS growth in 2021 and low-double-digit percent adjusted EPS growth in 2022 and beyond. Not bad for a stock trading at $53 and change!

CEO Larry J. Merlo stated, "Our goal is to fundamentally transform the consumer health experience for the millions of Americans we interact with every day, while creating value for our patients, members, partners, and shareholders. We have combined with Aetna to build a powerful and unique business model that will guide our journey to becoming the most consumer-centric health company."

Of course, last year's merger with Aetna has been the subject of bizarre courtroom drama as Judge Richard Leon decided after the transaction had closed that he wanted to review the terms of the settlement that CVS and Aetna had made with the Justice Department that allowed the deal to go through. Judge Leon's main issue was in whether a CVS plan to sell Aetna's Medicare Part D business to WellCare Health Plans would lead to greater competition and consumer protection. Hard to believe that anything significant will come of the case, though hearings were held this past week without a ruling date being determined, especially as the business has already been sold to Wellcare (with governmental sign off) while the Aetna merger has been closed for some six months.

Mr. Merlo went on to say at the investor event, "We're seeing the evolution of personalized care with a greater recognition that one size does not necessarily fit all patients. Advances in technology and the proliferation of personalized data through the increased use of genomics and wearable technology had made analytics a very important complement to provider health care decision-making. Now building out our technology infrastructure is essential to our goals by simplifying the consumer experience, improving health outcomes and driving efficiencies. And uniting CVS Health with Aetna provides us direct access to an unparalleled breadth of data. We're creating a new data ecosystem to protect this data as well as leverage it across our organization to provide a holistic view of the patient, garner insights into the Next Best Action to improve their health and determine how to best communicate with the patient. Our aim here is very simple, to turn data into insights and then insights into action."



The company said it would expand on its successful HealthHUBs pilot it ran in Houston, Texas. HealthHUBs are a powerful example of how CVS Health can provide consumers with convenient, personalized and integrated access to local health care. The company will open additional HealthHUBs in Houston, Atlanta, Philadelphia/Southern New Jersey and Tampa this year, and plans to have 1,500 total HealthHUBs operating by the end of 2021. HealthHUBs will offer a number of services such as ongoing care for diabetes, preventative care and wellness, dieticians and health insurance navigation. These locations will also offer immunizations, sleep assessments, primary care and school and sports physicals.

Despite a seemingly bright future, CVS shares have had a very tough last 6 months, with the stock hardly a favorite of analysts, though that seems to be shifting a bit. True, the competitive landscape it tough, but we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. Shares remain highly discounted, trading at just 7.9 times NTM earnings and with a 3.7% yield. Our Target Price for CVS is now $104.

Shares of **JM Smucker** (SJM – $124.53) ended the week up a modest 2% as the manufacturer and marketer of food products reported what we thought were solid fiscal Q4 2019 financial results. SJM earned an adjusted $2.08 per share in the period, versus the analyst consensus of

$1.95. Revenue was $1.90 billion, lagging investor expectations of $1.93 billion. The company is increasing marketing spend a bit to help stabilize market share over the long-term.

CEO Mark T. Smucker commented, “We are pleased with the progress that we made during the year towards executing against our strategic plan, which supported fourth quarter adjusted earnings growth of 8% and full-year adjusted earnings growth of 4%. We successfully integrated Ainsworth, extending our leadership in pet foods, while our key growth brands delivered double-digit sales growth, demonstrating the power of our brands when supported by ongoing product innovation, including 1850® coffee and Jif Power Ups®. We continued to focus on productivity, allowing us to deliver on our cost reduction targets for the year, providing fuel for investment in future growth.”

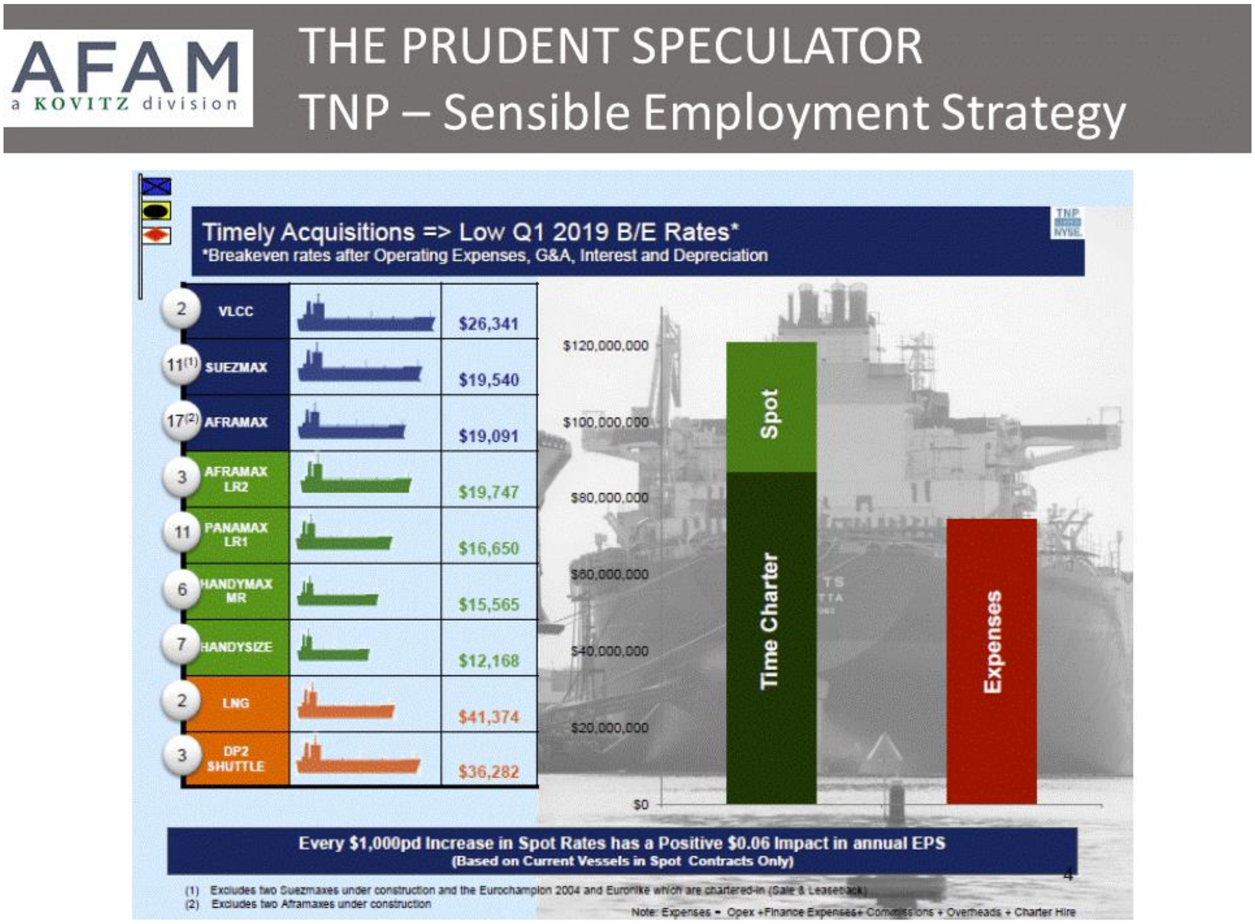
Looking ahead, Mr. Smucker explained, “As we transition to fiscal year 2020, our organization is committed to delivering on its growth imperatives to lead in the best categories, build brands consumers love, and be everywhere our consumers want us to be. Disciplined investment in our brands across pet food, coffee, and snacking leaves us well-positioned to drive sustainable financial growth and enhance shareholder value for the long term.” The company also announced that it sees full-year fiscal 2020 adjusted EPS in the range of $8.45 to $8.65, while free cash flow is expected to come in between $875 million and $925 million.

While there will continue to be operating headwinds and competitive pressures, we like the diversification SJM adds to our broadly diversified portfolios and think that management’s focus on pet foods and healthier franchises will boost the long-term prospects for the company. While shares are up 33% so far in 2019, we think they have more room left to run. SJM sports a forward P/E ratio of 14.6 and a 2.7% dividend yield. Our Target Price has been increased to $144.

Shares of **Tsakos Energy Navigation** (TNP – $3.15) rebounded somewhat over the last couple of trading sessions, after the marine shipper announced its Q1 financial results. Adjusted EPS came in at $0.01, versus the $0.00 that was expected. Revenue for the period also exceed consensus analyst estimates ($115.5 million versus $113.7 million). TNP’s fleet averaged $21,054 per day in time charter equivalent earnings compared to $17,771 per day in the first quarter of 2018, an 18.5% increase. Additionally, 73% of the fleet was employed on secured revenue contracts, which generated enough cash to cover operating expenses, charter-in costs, overhead and finance expenses for all the vessels in the fleet.

Though long-term investors would not know it by the stock price, Tsakos aims to perform well in both favorable and tough operating cycles, the latter being what has been seen for a while now. Still, the company’s average time-charter revenue in 2018 exceeded the spot market by 40%, and in the first quarter of 2019 by another 5%. Management also did a good job of reducing expenses during Q1.

“With cash flow generation clearly better compared to the 2018 first quarter and market dynamics shaping favorably, TNP’s ability to capture the expected market upside remains strong,” COO George Saroglou commented. “TNP’s employment strategy resulting to almost full fleet utilization coupled with the second phase of our fully financed fully employed organic growth, allow us to remain confident for the future and to continue rewarding our shareholders with attractive dividends."



While the total return on TNP shares is more than 20% this year, it is no secret that the stock has been in a disappointment over the last few years, despite the receipt of sizable dividends along the way. While we are always evaluating our continue ownership, we know that the stock has traded at several times its current level during previous cyclical highs in the tanker biz. We still like the exposure and think that TNP is set up with its contract structure to not only survive, but thrive, as business conditions improve, while we have at least had some rewards for our patience via the generous payout.

With a relatively young fleet and desire to make it younger, a more subdued industry-wide order book going forward and relatively consistent growth in global oil demand likely for the foreseeable future, we continue to think this micro-cap name fits in well with the much more well-known integrated oil and oil-service companies that account for the lion's share of our Energy Sector exposure. Sporting a current dividend yield of 6.3%, our Target Price for TNP floats in today at slightly less than $5.